ATLANTIC PROVINCES ECONOMIC COUNCIL | CONSEIL ÉCONOMIQUE DES PROVINCES DE L'ATLANTIQUE

Commentary

Federal Budget 2015: Highlights for Atlantic Canada

The federal government is projecting a balanced budget in 2015/2016 with a notional surplus of $1.4 billion. However, this has been achieved by reducing the regular $3 billion set aside for contingencies to $1 billion in 2015/2016, and is also helped by the sale of the government's remaining shares in GM (which contributes an extra $1 billion to the budget balance in 2015/2016).

The drop in oil prices since the Fall Update is forecast to reduce nominal GDP by $39 billion in 2015, and by just over $30 billion in subsequent years. This has helped shave $2.1 billion off the budget balance in 2015/2016. As a result, there is very little room in the budget for new measures. The net cost of budget measures in 2015/2016 is $0.5 billion. A number of initiatives are back loaded, with some not starting until 2016/2017 or later. Even so, the estimated cost of measures in Budget 2015 is less than $5 billion in 2019/2020.

In its last budget before the scheduled federal election in October, the government is forecasting surpluses of less than $3 billion out to 2018/2019 (despite reducing the normal $3 billion set aside for contingencies in each of the next four years), indicating little scope for new measures without reversing previously announced initiatives. However, the government is still on track to reduce the federal debt-to-GDP ratio to 25% by 2021.

The relatively small number of fiscal initiatives in this year's budget include measures for personal savings and seniors, small businesses and manufacturers, transit infrastructure and defence spending. As detailed below, most of these initiatives will have some benefit for the Atlantic region.

Personal Savings

As anticipated, Budget 2015 announced that it would almost double the annual contribution limit for the Tax-Free Savings Account (TFSA) from $5,500 per year to $10,000 per year, effective January 1, 2015. APEC estimates this change will save Atlantic Canadians $2.9 million in federal taxes in 2015/2016, increasing to $5.4 million in 2016/2017. Provincial tax revenues would also

be reduced: the Parliamentary Budget Office estimated that total provincial tax savings from the TFSA were approximately one-half of the federal tax savings. This change to TFSAs will especially benefit seniors above the age of 71 who can no longer contribute to a Registered Retirement Savings Plan (RRSP), but who can still get the tax benefit of investing in a TFSA.

Seniors also benefit from announced changes to Registered Retirement Income Funds (RRIFs). The minimum withdrawal amounts required between ages 71 and 94 are being reduced on a sliding scale, with a 28% reduction at age 71 declining to a 6% reduction at age 94. Monies withdrawn from a RRIF are fully taxable, as is the case with RRSP withdrawals. Due to population ageing and increasing life expectancy, this change will allow for better retirement financial planning. According to Statistics Canada, RRSP income for persons age 65 plus in Atlantic Canada was 5.2% of the national total in 2012. Based on this information, APEC estimates the RRIF changes will save Atlantic seniors approximately $7.3 million in federal taxes in 2015/2016, with additional savings in provincial income tax.

Manufacturing and Small Business

The government announced it will extend the accelerated capital cost allowance (CCA) for manufacturers, which was scheduled to expire at the end of 2015, for investments made after 2015 and before 2026. (The CCA will now be on a declining-balance basis rather than the previous straight-line depreciation.) APEC estimates the 50% accelerated CCA rate for manufacturing and processing capital investment in machinery and equipment will save Atlantic manufacturers $10.4 million in federal corporate income taxes in 2016/2017 rising to $31.3 million by 2018/2019. There could also be savings in provincial corporate income taxes because the CCA reduces taxable income.

In addition, the government announced it intends to reduce the 11.0% federal small business tax rate by increments of 0.5 percentage points per year – starting on January 1, 2016, until it reaches 9.0% - effective January 1, 2019. APEC estimates this will reduce federal income taxes paid by Atlantic businesses by $12.5 million in 2016/2017, rising to $84.7 million by 2019/2020. There would be no savings in provincial corporate taxes associated with this federal tax rate reduction.

Other Industry Initiatives

The 2015 Budget reaffirmed an announcement made in February about an accelerated capital cost allowance (CCA) treatment for assets used in facilities that liquefy natural gas (LNG). This will allow companies to more quickly recover the costs of their investments. The CCA for equipment used for LNG projects will increase from 8% to 30%; the CCA rate for buildings that are used for LNG facilities will increase from 6% to 10%. There are four LNG projects in various stages of development in Atlantic Canada with project values ranging from $2 billion to $8.3 billion. This initiative will help to improve the economics of these projects. The budget also announced a proposed extension to the maximum length of natural gas export licenses from 25 years to 40 years to improve regulatory certainty for these projects.

The budget announced $5.7 million over five years to secure new market access for seal products, including steps to certify seal products so they meet requirements for entry to the European Union. The Newfoundland and Labrador Department of Fisheries and Aquaculture estimates that the sealing industry has been worth over $55 million per year to the provincial economy.

Budget 2015 affirmed a March 1 announcement that the Mineral Exploration Tax Credit is being extended until March 31, 2016, benefiting junior exploration companies, at a cost to the federal government of $35 million between 2015/2016 and 2016/2017. Atlantic Canada accounted for 6.8% of Canada's mineral exploration by junior exploration companies in 2014.

Innovation

Several innovation initiatives have the potential to benefit Atlantic Canada, although the region typically receives a relatively small share of these programs. Budget 2015 proposes to provide $1.3 billion over six years, beginning in 2017/2018, to the Canada Foundation for Innovation to support advanced research infrastructure; $119 million over two years, starting in 2015/2016, to enable the National Research Council to support business innovation; an additional $46 million per year starting in 2016/2017 for the granting councils (such as NSERC, SSHRC and CIHR); and $105 million over five years starting in 2015/2016 for Canada's high-speed research network (CANARIE).

Infrastructure

Previously announced initiatives such as the Building Canada Fund and the Gas Tax for Municipalities will continue to support infrastructure projects across Atlantic Canada. The major new infrastructure program announced in Budget 2015 is the Public Transit Fund. The program will provide $250 million in 2017/2018, $500 million in 2018/2019 and $1 billion per year in subsequent years. The program will target projects that have private sector investment components and will be managed by PPP Canada Inc., a federal crown corporation. The government will work to extend the federal payments for the project over the useful life of the asset so that it can fund more projects. This program will have a larger impact outside of Atlantic Canada due to the small size of the region's cities and less complex transit systems.

A $5.8 billion initiative to support federal infrastructure was also announced last fall. This includes $2.8 billion for heritage and tourism sites, $452 million for Armed Forces facilities and $288 million for small craft harbours which will benefit Atlantic Canada. The funding begins with $393 million in 2015/2016 and $418 million next fiscal year.

Defence and Security

Budget 2015 announced $11.8 billion over 10 years in new funding for the Department of National Defence. The additional funding comes from increasing the annual defence budget escalator from 2% to 3%, but this will not begin until 2017/2018. The extra funding will add $184

million to the defence budget in 2017/2018. About 14% of defence spending occurs in Atlantic Canada including 9% in Nova Scotia. The budget also proposes to provide $23 million over four years starting in 2015/2016 to upgrade the physical security of Canadian Armed Forces bases.

The Budget proposes up to $1 million to fund the federal share of a memorial for the three Royal Canadian Mounted Police officers killed in Moncton in June 201[illegible].

Employment Insurance and Student Loans

Budget 2015 invests $54 million over two years to extend the current Employment Insurance (EI) Working While on Claim pilot project to August 2016. In 2011/12, 153,000 Atlantic Canadians benefited from the Working While on Claim provisions, amounting to 19% of new regular EI claims in Canada; the current Working While on Claim pilot project was introduced in August 2012.

The Federal Government announced $235 million over four years starting in 2016/2017 to expand access to the Canada Student Loans Program. Changes to the student loans needs assessment process will increase the number of students that qualify for loans and the amounts that students can borrow. According to the 2013 BMO Student Survey, Atlantic university students expect to graduate with $30,700 in debt, about 17% above the national average. The budget also commits $184 million over four years to include short duration programs in the Canada Student Grants Program. It will now include programs over 34 weeks in duration, down from the previous threshold of 60 weeks.

Family Tax Cut and Changes to Child Care Benefits

APEC has estimated the savings to Atlantic families of a number of measures announced on October 30, 2014.

The federal government will provide a maximum $2,000 tax reduction in the form of a non-refundable tax credit for couples with children under the age of 18, referred to as the Family Tax Cut. This notional tax credit is the approximate equivalent of allowing a higher-income spouse or common-law partner the ability to transfer up to $50,000 in taxable income to a lower-income spouse or common-law partner – starting in tax year 2014. Based on estimates from Finance Canada and the Parliamentary Budget Office, APEC estimates the Family Tax Cut will provide Atlantic families with federal tax savings valued at between $96 million and $109 million in 2015/2016. There would be no savings in provincial personal taxes associated with this federal tax credit. Seniors already benefit from pension income-splitting under existing tax rules.

The federal government is increasing the monthly amount for the Universal Child Care Benefit for parents with children under the age of six by $60, from $100 to $160 per month, effective January 1, 2015. In addition, a new Universal Child Care Benefit of $60 for children age 6 to 17 was introduced effective January 1, 2015, valued at $60 per month. APEC estimates these two

changes to the Universal Child Care Benefit (UCCB) will increase annual payments to Atlantic parents with children under the age of 18 by $265 million in 2015. Since the UCCB has been enhanced, the federal government is eliminating the federal Child Tax Credit effective January 1, 2015. The federal Child Tax Credit was a $2,255 non-refundable tax credit in 2014, with a maximum tax reduction of $338 per child under age 18. APEC estimates that the elimination of the Child Tax Credit will increase federal tax revenues from Atlantic families with children under age 18 by $106 million in 2015. Thus, the net tax benefit to Atlantic families from the enhanced UCCB and elimination of the Child Tax Credit is $159 million.

The government has increased the maximum child care expense deduction limits by $1,000 each, effective January 1, 2015. The maximum amounts that can be claimed will increase to $8,000 from $7,000 for children under age 7, to $5,000 from $4,000 for children aged 7 to 16, and to $11,000 from $10,000 for children who are eligible for the Disability Tax Credit. Based on Atlantic Canada's share of regulated day care spaces in Canada in 2012, which was 5.1%, APEC estimates that Atlantic parents with children in day care will have federal tax savings of $3.3 million in 2015. Since the child care expense deduction reduces taxable income, there would also be savings in provincial personal taxes.